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Task Force releases its recommendations

By Anne Wolf and Carolyn McMillan

After more than a year of study, consultation and discussion, the Post-Employment Benefits Task Force has presented its recommendations for pension and retiree health benefit changes to University of California President Mark Yudof.

The task force recommends that UC:

- **Increase employer and employee contributions to the UC Retirement Plan (UCRP) to 10 and 5 percent, respectively, by July 2012.**
- **Add a new UCRP pension tier for employees who join UC after July 2013.** Several options are proposed, but all raise the minimum retirement age from 50 to 55 and require faculty and staff to work longer to receive the maximum pension benefit.
- **Change eligibility rules for retiree health benefits.**
- **Reduce, over time, UC contributions to retiree health insurance premiums to 70 percent of the cost.**

The task force also recommends excluding employees who are nearing retirement from the changes in eligibility for retiree health care. Roughly 40 percent of current faculty and staff would be "grandfathered" in under the recommendations.

"The task force has done a tremendous job in listening to the needs of the university and its people as they developed these proposals," Yudof said. "I am now asking

members of the administration to continue the consultation process with faculty, staff and retirees in advance of my final recommendations to the regents.”

Yudof has asked Provost Lawrence H. Pitts, who chaired the task force steering committee; Nathan Brostrom, executive vice president of business operations; and Peter Taylor, chief financial officer, to continue the consultation process.

The UC Board of Regents, which has final authority over UC's retirement plan, is expected to vote on UCRP contribution levels at its September meeting and take up other aspects of the plan at subsequent meetings in the fall.

None of the proposed changes will alter the vested pension benefits that faculty, staff and retirees have already accrued. Those benefits are guaranteed under state law. In addition, most other proposed changes would be subject to collective bargaining for union-represented employees.

Attractive, sustainable benefits

With the university facing rising costs for pension and retiree health benefits, Yudof formed the task force in February 2009 and charged it with developing recommendations for competitive pension and retiree health benefits that would be financially sustainable over the long term. The university already has a \$21 billion unfunded liability for its retiree health and pension benefits. Within five years, that unfunded liability is projected to grow to \$40 billion – twice the current size of the entire UC budget.

The task force has approached the problem by developing recommendations that reward long service to the university and encourage employees to retire later and closer to the time they are eligible to receive Social Security benefits, said Randy Scott, executive director of talent management and workforce development and UC staff lead on the project. Faculty, on average, retire at age 66 and staff retire at about age 60.

The task force also was mindful of how important UC's post-employment benefits are to faculty and staff, Scott said. Surveys and other feedback confirmed the task force's view that retirement benefits are one of the key reasons that employees stay at UC. The task force sought to develop recommendations that would preserve that, he said.

UCRP Contributions

The Board of Regents at its September meeting is expected to discuss and vote on the task force recommendation for increasing both employee and employer contributions to the UCRP for the next two fiscal years.

The recommendations call for moving quickly towards a contribution level of 17.6 percent of payroll, the amount necessary each year to cover the cost of future benefits incurred for that year.

PROPOSED UCRP CONTRIBUTIONS		
	EMPLOYEE*	UNIVERSITY*
Current	2–4%	4%
July 2011	3.5%	7%
July 2012	5%	10%

* portion of employee earnings directed to the UCRP

UC and employee contributions are likely to rise again in 2013 by another 2 percent, but if other recommendations are followed, employees by then may have the option of enrolling in a new pension tier that requires lower contributions but also has a reduced benefit.

New UCRP tier

The task force also calls for a different pension tier for UC faculty and staff who join the university after July 2013. Current employees could also have a one-time option of joining the new tier.

While the task force agreed on the concept and many of the features of a new tier, they did not reach consensus on some issues, including contribution rates. As a result, the group put forward two options.

The least expensive option would require the university and its employees together to contribute about 12 percent of annual pay, while the task force's second option would cost about 14 percent, compared with the current cost of 17.6 percent.

The president has also agreed to look at a third option, one that the task force steering committee thought was too costly. It would require the university and its employees together to contribute about 15 percent of pay, but would more closely match the current pension in terms of benefits.

Under the options advanced by the task force, employee contributions to UCRP would be 3.5 to 4 percent of pay on an amount determined by the Social Security Administration – currently about \$60,000 – and 8.2 to 9.5 percent of pay for any portion of wages over that amount. UC would contribute between 7 and 9 percent. The percentage range reflects the differences between the two options.

Both task force proposals integrate UC's pension with Social Security benefits to ensure that long-term employees can retire with up to 100 percent of their income when UCRP and Social Security benefits are combined.

Many retirement experts say 80 percent of income is the amount needed to maintain one's current lifestyle after retirement. By coordinating the UCRP tier with Social Security benefits, UC would be able to reduce its pension costs while ensuring that faculty and staff would have sufficient retirement income when Social Security, UCRP benefits and retirement savings are combined, task force members said.

The chart below offers a quick comparison of the plan features for the current UCRP plan and the proposed options for a new tier.

PLAN FEATURES	CURRENT UCRP	PROPOSED UCRP TIER OPTIONS	
Minimum Retirement Age	50	55	
Maximum Benefit Age	60	65	
Maximum Benefit <i>20 years of service</i> <i>30 years of service</i>	50% of salary 75% of salary	Option A 42% of salary 45% of salary	Option B 48% of salary 60% of salary
Employee Contribution	2-4% of pay in 2010 3.5% in 2011 5% in 2012	3.5% up to about \$60,000* income; 9.5% for income over \$60,000	4% up to about \$60,000* income; 8.2% for income over \$60,000
Employer Contribution	4% in 2010 7% in 2011 10% in 2012	7.3%	9%
Benefit Choice	Monthly retirement income or lump sum cashout	Monthly retirement income	

*This amount is determined by the Social Security Administration and is adjusted annually.

Retiree Health Insurance

In the area of retiree health insurance, the task force recommends changes to eligibility rules and to the amount the university contributes to the cost of health insurance premiums.

Under the proposed changes, those who retire between ages 50 and 56 with 10 years of service would still be eligible for UC-sponsored group health insurance plans, but would pay the full premium cost.

Eligibility for a UC contribution would be determined by a graduated formula based on years of service and employee age at retirement, beginning with UC offering a 5 percent contribution to those who retire at age 56 with 10 years of service.

An employee who retires at age 65 with 20 years of service would be eligible for 100 percent of the UC contribution.

Under current and future eligibility rules, employees must be enrolled in UC-sponsored health insurance at the time of retirement to be eligible to continue participation as a retiree.

The task force recommends that UCRP members with at least five years of service be grandfathered in under current eligibility rules if their age plus years of service is equal to 50 or greater. Under those guidelines, roughly 40 percent of all UCRP members would fall under the current eligibility rules.

Gradual increase in cost-sharing

Current and future retirees would gradually pay more for retiree health insurance, while UC would reduce its share by about 3 percent per year under a task force proposal for predictable, phased-in changes.

Under the task force proposal, UC's contribution would level off at 70 percent of the total premium. UC currently contributes about 89 percent of the cost of retiree health insurance premiums.

This recommendation does not need approval from the regents, and UC likely will begin reducing its share of retiree health premiums in 2011. Retirees would be notified of increased premiums this fall during Open Enrollment.

Protections for retirees without Medicare

UC would moderate the effects of reduced contributions for retirees who are not eligible for Medicare.

Premiums for retirees over age 65 who are not covered by Social Security and are not otherwise eligible for Medicare would be the same as the rates for employees who earn between \$46,001 to \$92,000 per year. UC has typically contributed about 88 percent of the cost of premiums for employees in that salary band.

"Retirees over 65 not eligible for Medicare have saved the university money over the years because UC did not pay into Social Security for them," said Scott. "The retiree health work group and the task force feel strongly that we should make every effort to mitigate the impact of reduced contributions on these retirees."

For retirees under the age of 65 who are not yet eligible for Medicare, the task force recommends that their health premiums be blended with those paid by active employees.

Because retirees tend to use their health benefits more than employees, the cost of health insurance for this group is more expensive. By including early retirees in the larger pool of UC employees, the university would be able to pass along a lower premium.

Next steps

With the task force's work complete, the next steps involve further consultation with faculty, staff, retirees and the regents.

"I anticipate that the report and its recommendations will spark extensive discussions," said Provost Pitts. "It is imperative for us to adopt a plan that will provide appropriate benefits at a cost that is sustainable in the decades ahead."

Learn more and get involved at the Future of UC Retirement Benefits website **<http://universityofcalifornia.edu/sites/ucrfuture/>**

- Download a copy of the task force's report
- Find answers to Frequently Asked Questions
- See narrated presentations from the Fall 2009 and Spring 2010 local forums
- Submit a comment or question about the recommendations

- See results of the retirement benefits surveys
- Find more in-depth coverage in the coming weeks

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What's next

Sept. 14-16: Regents discuss and vote on future UCRP contributions

Sept. 29: Systemwide Web Town Hall

November: President sends recommendations to the Board of Regents for discussion

What's not changing

While the Post-Employment Benefits Task Force has proposed many changes, certain things will not change.

For Employees

- UC will continue to offer a defined benefit retirement plan, i.e. a pension plan;
- Any pension benefits you have accrued up to the time changes are made cannot be altered; and
- UC will continue to offer retiree health benefits.

For Current UC Retirees

- Your monthly retirement benefit will not be reduced;
 - You will not be asked to contribute to UCRP;
 - UC will continue to offer retiree health benefits; and
 - The eligibility rules for your retiree health benefits remain the same.
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Confronting the cost of retirement benefits: How UC stacks up

In September, the University of California Board of Regents is expected to vote on increasing the employer and employee contribution rates to the UC Retirement Plan (UCRP).

Under recommendations proposed by the Post-Employment Benefits Task Force, UC employees would begin contributing 3.5 percent of earnings to the UCRP in July 2011. The rate would rise to 5 percent in July 2012. UC also would contribute more, with contributions of 7 percent in 2011 and 10 percent in 2012.

"Our retirement benefits are an important component in our recruitment and retention efforts, and we want to keep that edge, but we must make some rational adjustments in order to sustain them," said Dwaine Duckett, vice president for UC Human Resources.

UC is not alone in confronting the issue of how to pay for employee retirement benefits. In California and across the country, public and private employers are looking at ways to make retirement benefits financially sustainable.

Yet even with the proposed changes, UC faculty and staff will be paying less than many other workers for retirement benefits. And the university's benefits often are more generous than those provided by other employers.

Here are some facts about how UC's retirement benefits stack up, together with a chart detailing the proposed changes to UCRP contributions:

- Faculty and staff at comparable colleges and universities with pension plans similar to UC's contribute between **3 and 8 percent of pay** for retirement benefits; employers contribute roughly 6 to 10 percent of pay for pension benefits. Currently, UC employees pay roughly 2 percent and the university pays 4 percent.
- Faculty and staff at comparable institutions with matching defined contribution plans (similar to UC's 403(b) and 457(b) plans) contribute **1 to 5 percent of pay**, which most employers match 1-to-1.
- Employees in CalPERS, the state retirement plan, currently contribute **5 to 8 percent of pay** for their pension while employers pay 17.4 to 29.2 percent of pay.
- Gov. Arnold Schwarzenegger has proposed increasing the employee contribution rate to CalPERS by 5 percent; six state worker unions tentatively have agreed to this proposal.
- 75 cities, counties and public agencies are considering changes to employee pensions, according to CalPERS.
- About 45 percent of Fortune 100 companies offer traditional or hybrid pensions to their new hires, according to a 2009 study by consulting firm Watson Wyatt, down from 49 percent in 2008 and 90 percent in 1998.

	PENSION PLAN CONTRIBUTIONS		DC PLAN CONTRIBUTIONS*	
	EMPLOYER	EMPLOYEE	EMPLOYER	EMPLOYEE
UC				
Current	4%	2% of salary up to \$106,800 in 2010; 4% on balance	none	voluntary
Proposed July 2011	7%	3.5%		
July 2012	10%	5%		
CalPERS				
Current	18-33%	5-8%	none	voluntary
Proposed	13-28%	10-13%		
Stanford	Does not offer		1-5% \$1.50 per \$1 \$1 per \$1	none 1-2%, voluntary 3-4%, voluntary
SUNY**	Information not available	3%	8-10%	3%
Illinois**	Information not available	8%	7.1%	8%
Virginia**	5%	5%	8.9%	5%
Michigan	Does not offer		10%	5%
Harvard	Does not offer		5-15%, based on age and pay	None
IBM	Ended in 2008		Hired by 12/31/04 2-4% + matches employee contributions up to 6% of pay Hired after 12/31/04 1% + matches contributions up to 5% of pay	Voluntary, up to 80% of pay, subject to IRS restrictions
Genentech	Does not offer		2% + matches employee contributions up to 5% of pay	Voluntary, up to 50% of pay, subject to IRS restrictions

* DC or Defined Contribution Plans are similar to 401(k) and 403(b) plans; participants direct the investments and bear the investment risk.

** Employees have one-time choice of pension or defined contribution plan.

SAVE THE DATE
Web Town Hall
Sept. 29, 2010
2:00 p.m. – 3:30 p.m.
<http://www.ustream.tv/ucevents>

Online Town Hall about UC Benefits

UC leaders will host an online town hall meeting Sept. 29 to talk with faculty and staff about post-employment benefits, health care costs, UC's budget and other university issues.

The systemwide town hall meeting – a first in university history – will provide members of the UC community an opportunity to ask questions and share concerns about these complex issues and to hear directly from, and engage with, senior university leaders.

Panelists will include Nathan Brostrom, executive vice president for business operations; Dwaine Duckett, vice president for human resources; and provost Lawrence Pitts, executive vice president for academic affairs of the UC system.

The town hall will be webcast beginning at 2:00 p.m at: <http://www.ustream.tv/ucevents>. No log in is necessary to view the event.

To submit questions and comments, participants must create a UStream account. This is a simple process that takes about a minute. Sign up for an account here: <http://www.ustream.tv/login-signup>.

Faculty and staff who are unable to participate will be able to view an archived copy of the webcast at <http://www.ustream.tv/ucevents>. A transcript of the proceedings will also be made available.

UC Post-Employment Benefits Timeline

1961 – 1990

University of California begins offering pension and retiree health benefits to faculty and staff through the UC Retirement Plan (UCRP). UC and its employees share the cost of the program. **Employee pension contributions range from 2 to 7 percent of annual pay.**

1962

UC begins offering health insurance to its retirees. The benefit costs the university \$5 per month, per person.

1990

Regents, citing a retirement fund surplus, vote to suspend contributions to UCRP, but reserve the right to reinstate them as necessary to maintain the plan. Faculty and staff begin redirecting mandatory contributions of roughly 2 percent of pay to UC's Defined Contribution Plan.

2005

Regents receive a report showing UCRP's funded status is in decline, though still well over 100 percent. "The current 'contribution holiday' cannot be sustained," report authors note.

July 2005

UC begins including unfunded liabilities for retiree health plans in its financial reports, as required under new federal rules.

March 2006

Regents vote to resume UC and employee contributions to UCRP, with contributions rising over time in order to maintain 100 percent funding. They ask for administrative recommendations on how to apportion cost sharing.

May 2006

Lack of state budget support and need for consultation with faculty, staff, unions and retirees lead regents to **delay the restart of UCRP contributions**.

July 2006

The regents agree to restart contributions in July 2007, subject to available funding and state support.

Nov. 2006

UC continues its requests for state support for contributions to UCRP, just as the state supports the retirement funds of the Community College and California State University systems.

Aug. 2007

After experiencing a year of high investment returns, UC delays the restart of pension contributions through the rest of the 2007-08 fiscal year due to lack of state funds.

Sept. 2008

Regents approve a **new funding policy for UCRP** that calls for the ramp up of contributions to a level that will fully fund the plan. A report on the UCRP notes that 80 percent of employees have never contributed to the retirement fund.

Jan. 2009

UC's Academic Senate endorses the restart of UCRP contributions, provided total compensation for faculty and staff is preserved.

Feb. 2009

Regents approve the restart of UCRP contributions, beginning with May 2010 earnings. Employees will contribute about 2 percent of annual pay; UC and its funders will contribute 4 percent, with amounts rising gradually over time to a level that will ensure the plan is 100 percent funded.

March 2009

President Yudof appoints the Post-Employment Benefits Task Force. It is charged with developing recommendations to ensure that post-employment benefits are financially sustainable and reflect the university's commitment to competitive pay and benefits.

June 2009

The task force, comprised of a cross-section of UC stakeholders, forms working groups focused on finance, pension and retiree health.

July 2009

An independent actuary reports that the funded status of the **UCRP has dropped to 95 percent**. It is the first time since 1986 that UCRP's funded status is below 100 percent.

Oct. 2009

The task force holds local forums at each UC location to give faculty, staff and retirees the opportunity to ask questions and learn about how fiscal pressures are affecting the University's pension and retiree health programs.

Nov. 2009

The cost of retiree health care, which is funded annually from operating revenue, is projected to increase from \$225 million per year in 2010 to \$416 million per year by 2013.

Jan. 2010

UC's unfunded liability for retiree health reaches \$14.5 billion, a figure projected to grow to \$20.6 billion by 2014.

Feb. 2010

The task force surveys members of the university community about preferences and priorities for post-employment benefits.

April 2010

The task force begins a second round of local forums at each UC location. The group discusses survey findings and outlines initial ideas for changes to post-employment benefits.

May 2010

UC and its employees begin contributing to the UCRP, with UC paying roughly 4 percent of annual pay and employees paying about 2 percent. Employee contributions result in no net reduction in pay as they are redirected from the UC Defined Contribution Plan.

Aug. 2010

The task force issues its recommendations to the president. The recommendations, based on consultations with university stakeholders, are designed to keep UC's post-employment benefits attractive and sustainable for the long term.

Aug. 2010

President Yudof appoints senior university leaders to continue the consultation process with faculty, staff and retirees, in advance of sending his final recommendations to the regents in November.